Alabama Trust Fund

Investment Policy Statement

Section 1.
Constitutional Authority

(1) Amendment No.450 to the Constitution of the State of Alabama of 1901 created “an irrevocable, permanent trust fund named 'the Alabama trust fund'" to be funded and administered in accordance with the provisions of amendment 450.

(2) The Board of Trustees, as created in section 3(a) of Amendment 450, is responsible for establishing investment objectives and policies and responsible for their implementation. The board oversees investment activities, monitors investment performance, and insures the prudent control of the investment of funds for the Alabama Trust Fund.

Section 2.
Investment Responsibility

(1) Section 5 (b) of Amendment 450 states that “in making any investment of moneys held in the trust fund, the board shall exercise the judgement and care, under the circumstances prevailing at the time of such investment, which an institutional investor of the highest standard of prudence, intelligence and financial expertise would exercise in the management and investment of large assets entrusted to it not for the purpose of speculative profit but for the permanent generation and disposition of funds, considering the probable safety of capital as well as the expected amount and frequency of income.”

Section 3.
Investment Policy

(1) Section 5 (b) of Amendment 450 states that “to the extent practicable, the board shall keep all moneys at any time held in the trust fund invested in such eligible investments as shall, in its sole and uncontrolled judgement, produce the greatest trust income over the term of such investments while preserving the trust capital.

(2) Under Amendment 666 of the Alabama Constitution of 1901, within 30 days following the end of each fiscal year, the Board of Trustees may transfer as income up to 75% of the realized and unrealized capital gains attributable to equities.

Section 4.
Investment Objectives

(1) Short Term Objective- The current objective of the Alabama Trust Fund is to consistently generate more than 100 million in annual income and distributable gains.

(2) Long Term Objective- The long-term objective of the fund is two-fold. First, to preserve the real value of its cash flow, and second, to provide a means through undistributed capital gains to increase the corpus of the trust in anticipation of decreasing oil and gas royalty payments.

Section 5.
Asset Allocation

(1) The board shall allocate trust assets in a manner that protects the trust capital while achieving its operational goals stated in this investment policy document. A growth portfolio of equities and other financial instruments should be maintained to augment fixed income investments that are needed to satisfy the stated objectives and to protect the fund from inflationary erosion.

(2) The investment portfolio shall be diversified both by asset class and within asset classes, by economic sector and industry. The purpose of diversification is to reduce the specific risk associated with any single security or class of securities.

Section 6.
Asset Range

(1) The market value of investments in various assets shall generally remain within the following ranges:

Fixed Income:	Percent of Total Fund:
Core	32.5% +/- 5%
Core Plus	32.5% +/-5%
Equity:	
Large Cap	19% +/- 3%
Domestic Small Cap	4%
International	9%

Section 7.
Eligible Investments

Unless restricted elsewhere in the guidelines, eligible investments shall consist of all types of securities contained in the following indices: Lehman Brothers Aggregate Bond Index, Merrill Lynch High Yield Cash Pay Index, Wilshire 5000 Index, MSCI EAFE Index, MSCI All-Country World Index, MSCI World Index Small Cap, and the MSCI Emerging Markets Free Index.

In addition to the Lehman Aggregate index listed above, core fixed income managers may invest in securities outside the index as long as their addition does not significantly change the risk profile of the manager's portfolio as a whole. Potential investments may include, but are not limited to, TIPs, CMOs, ARMs, Hybrid ARMs, and Munis.

Section 8.
Domestic Equity Investment Criteria

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all state and federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) Shares may be purchased in domestic stocks listed on the New York or American Stock Exchange or in over-the-counter stocks approved by the Federal Reserve System for margin. ADRs listed on the NYSE are permitted investments for managers whether or not they have a foreign or global mandate.

(2) Other forms of equity investments such as direct investments are allowed subject to state law and with prior approval of the full board.

(3) The aggregate investment of the Alabama Trust Fund in the equity securities of any one issuing corporation shall not exceed 1% of the outstanding capital of such corporation. External managers shall notify the board at least annually if the manager's total position in one corporation exceeds 5% of the outstanding capital of such corporation.

(4) Portfolios are to remain fully invested. Managers' cash positions are not generally to exceed 5%. It is the responsibility of the manager to contact the Board to obtain authorization if and when it becomes clear that a cash position of more than 5% is warranted for more than 90 days.

(5) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 9.
International Equity Investment Criteria

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) Equity holdings shall be restricted to readily marketable securities of corporations that are domiciled in countries outside the United States or generate most of their revenues outside the United States. The securities shall be actively traded on major exchanges in these countries or in the U.S. Equity holdings may include American Depositary Receipts traded on U.S. exchanges. Convertible preferred stocks may be held. Exposure to Emerging Markets securities shall be limited to 20% of the market value of the portfolio.

(2) Investments should not be made in equity securities of issuers which do not have an available operating history of at least three years. Five years of operating history is preferred. Operating history may include past performance resulting from mergers, acquisitions, and spin-offs.

(3) Equity investments in companies with a market capitalization of less than $100 million at the time of purchase are prohibited investments. Market Capitalization shall be defined as the number of shares outstanding multiplied by the market price per share.

(4) Not more than 5% of the total stock portfolio may be invested in the common stock of any one corporation at the time of purchase and no more than 7% in any one corporation at market. Not more than 5% of the outstanding shares of any one company may be held by the portfolio. No more than the lessor of (2 times the sector weight in the index and 40%) valued at market may be held in any one economic sector as defined by MSCI.

(5) Futures and options may be used as a substitute for equity securities provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets. Futures and options may also be used to reduce the effect of currency fluctuations on the returns to the fund.

(6) Investments in stock index futures and exchange traded funds are permitted for the purpose of equitizing cash.

(7) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 10.
Investment Grade Fixed Income Investment Criteria

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) At the time of purchase all securities purchased for the Fund must be classified as investment grade by two of the three major rating services. For this purpose the rating must be at least "Baa3" by Moody's, "BBB-" by Standard and Poors and "BBB-" by Fitch ratings, or an equivalent short term rating. If only one rating exists, this one rating will determine investment grade status.

(2) The fixed income portfolio is to be diversified so that no more than 15% is invested in one industry (does not apply to US Government and Agency securities).

(3) The board may permit managers to purchase other securities. Such authority will be provided in writing to the manager.

(4) No more than a maximum of 5% of the total fixed income portfolio may be invested in securities of any one corporation.

(5) Unrated securities other than those issued by the US government or its Agencies may not be purchased without the prior consent of the board. Approved exceptions are 144A Privates (non-registered debt issued by corporations) when such companies registered debt carries an investment grade rating by either Moody's, Standard & Poor's, or Fitch.

(6) The portfolio's average duration is not to exceed 1.5 times that of the benchmark index.

(7) Non-dollar fixed income securities are not permitted.

(8) Derivative instruments, including futures contracts, option contracts and swap agreements may be used provided that they are 100% collaterized by highly liquid securities and do not represent leveraging of the assets.

(9) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 11.
Core Plus
Fixed Income
Investment Criteria

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) The portfolio must have an overall weighted average credit rating of "A" or better by Standard & Poor's and Fitch, or "A2" by Moody's rating services.

(2) All investments are to be rated at least B- by Standard and Poors, B3 by Moody's, or B- by Fitch at the time of purchase. A maximum 5% of the market value of the portfolio may be held in securities rated below CCC by Standard and Poors and Fitch or Caa1 by Moody's. If issue is split rated, lower rating is applicable for guideline purposes. Securities that are not rated will be permitted if, in the judgement of the investment adviser, they are of credit quality equal or superior to the standards described above.

(3) The fixed income portfolio is to be diversified so that no more than 15% is invested in one industry (does not apply to US Government and Agency securities).

(4) The board may permit managers to purchase other securities. Such authority will be provided in writing to the manager.

(5) No more than a maximum of 5% of the total fixed income portfolio may be invested in securities of any one corporation.

(6) Securities issued under Rule 144A (non-registered debt issued by corporations) are limited to 20% of the market value of the portfolio. Private placements securities that are not issued under Rule 144A securities are limited to 5% of the market value of the portfolio (not including pooled funds).

(7) The portfolio's average duration is not to exceed 1.5 times that of the benchmark index.

(8) Investments in high yield bonds, Non-US dollar denominated bonds, emerging markets debt, bank loans and currencies are permitted. The total allocation to these non-benchmark sectors shall not exceed 30% of the market value of the portfolio. Emerging markets issuers that are part of the Lehman Brothers Aggregate Index would not count towards the 30% limit.

(9) Derivative instruments, including futures contracts, option contracts and swap agreements may be used provided that they are 100% collaterized by highly liquid securities and do not represent leveraging of the assets.

(10) The portfolio will not invest in:
- Common Stock

(11) The investment adviser will not:
- borrow money;
- pledge, hypothecate, mortgage or encumber assets;
- loan money;
- purchase or sell real estate;
- purchase or sell commodity options

(12) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 12.
Alternative Investments

In implementing the asset allocation policies referred to in Section 5,the Fund may use a number of different strategies designed to invest the assets of the plan in a more efficient manner. The goal of any alternative strategy is to increase the overall investment return and/or reduce the overall volatility in a manner consistent with the goals of the Fund. These alternative strategies would not typically be part of the domestic equity or fixed income composites because of their credit rating, illiquidity, concentration, complexity, short track record and other unique characteristics.

Section 13.
Cash Investment Criteria

To the extent that the portfolio holds cash, the cash is allowed to be invested in: the commingled short-term investment fund managed by the custodian consistent with OCC Reg 9 and/or SEC Rule 2a-7, securities issued by the U.S. Government and its agencies, certificates of deposit, repurchase agreements, and commercial paper rated A-1 by Standard & Poor's and P-1 by Moody's (or equivalent).

Section 14.
Investment Performance And Risk Standards: Fixed Income

(1) Investment managers with actively managed fixed income mandates will be expected to produce a cumulative annualized total return net of fees that exceed their designated performance benchmarks.

(2) All managers will be provided performance benchmarks and a statement of objectives at the time of their hiring.

(3) Managers will be evaluated over a complete market cycle.

Section 15.
Investment Performance And Risk Standards: Equities

(1) Investment mangers of equities will be expected to achieve cumulative annualized total returns net of fees that exceed their designated performance benchmarks.

(2) All mangers will be provided performance benchmarks and a statement of objectives at the time of their hiring.

(3) Managers will be evaluated over a complete market cycle.

Section 16.
Prohibited Transactions

(1) The following are prohibited transactions:

- (a) Short Sales; however, sales of currency contracts are permitted as noted above.
- (b) Margin purchases.
- (c) Restricted or letter stock.
- (d) Commodities.
- (e) Currency trading unrelated to hedging of permitted equity or fixed income securities.
- (f) Securities of the asset manager, the custodian, their parent, or subsidiaries (other than money market funds).
- (g) Derivatives (other than those permitted above).
- (h) Real estate investments other than REITS.
- (i) Oil, gas & mineral exploration investment trusts.

(2) The board may at any time prohibit certain investments because of concerns relating to social responsibility issues.

Section 17.
Trading and Directing Brokerage

(1) The board reserves the right to pay outside consultants by fee, or by instructing investment mangers to direct brokerage to consultants to obtain independent performance analysis or other services.

(2) The board may direct its external investment managers to cooperate in the recapture of certain trading commissions, or to direct these trades for the purpose of obtaining appropriate 3rd party investment services.

(3) The board may prohibit managers from benefiting directly or indirectly from Alabama Trust Fund trading commissions. All soft dollar arrangements and other forms of compensation will be disclosed.

Section 18.
Securities Lending

(1) Securities lending is permitted as an opportunity to earn additional income for the Alabama Trust Fund. Bank custodians and third party agent lenders may be retained.

(2) The board shall design and issue requests for proposal to hire securities lending managers following a thorough evaluation of the current and long term needs of the trust.

(3) The board shall review securities lending managers account activity quarterly with an annual review.

Section 19.

Investment Managers

(1) Pursuant to Amendment 666 of the Alabama Constitution of 1901, " the Secretary-Treasurer of the Retirement Systems of Alabama shall be the initial manager of 50 percent of the assets, and financial institutions and other corporate entities with general trust powers shall be the initial manager or managers of 50 percent of the assets in the Alabama Trust Fund."

(2) All investment managers' assets allocation and strategies will be subject to the guidelines contained herein.

(3) Investment managers employed by the Trust will be selected through a through review process, which will include all or some of the following steps:

- Formulation of specific manager search criteria that established the qualifications for the manager's role.
- Identification of qualified candidates from Board members or the manager search database maintained by the Trust's investment consultant.
- Complete due diligence on each candidate that will include performance screening, qualitative screening, or onsite visits.
- Selection and interview of finalist candidates based on final results of the due diligence process.

(4) The board shall review each manager on an annual basis. The evaluation shall be based on the stated investment performance and risk guidelines appropriate to that manager. In addition, the board shall make evaluations based on other criteria such as organization and portfolio manager changes.

(5) Performance measurement for each manager will be reported to the board on a quarterly basis and combined annually in accordance with industry standards. Investment managers may be required to meet personally with the board to review performance or other issues.

(6) Watch List - A number of factors may contribute to a manager's over- or under-performance at any given time - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. A watch list will be utilized to identify managers whose performance and/ or organization changes are cause for concern.

At the discretion of the Board, a manager may be included on the watch list based on qualitative factors and/or quantitative factors. Examples of qualitative factors include concerns regarding personnel, organizational changes, and ethical, legal or regulatory issues. Examples of quantitative factors are lagging performance or indicators that the investment mandate is not being implemented. When a manager is placed on the watch list, the Board will specify the reasons for its decision. An update on each manager as well as recommendation from Staff and Consultant to terminate or retain the manager must be made to the Board at each subsequent meeting after inclusion on the watch list. After the Board places a manager on watch, it will, typically within one year, either conclude that the issue(s) have been resolved, or terminate the manager Organizational issues that have been resolved in a satisfactory manner and improved performance relative to an index and or peers will be used as an indicator to remove a given manager from the watch list.
(7) Pursuant to Amendment 666 of the Alabama Constitution of 1901the board of trustees shall have the power to appoint another person or persons to manage

all or any portion of the assets in the Alabama Trust Fund upon a two-thirds vote of the board.

Section 20.
Exceptions

Each investment manager is required to comply with the objectives and guidelines set forth in this document. The board requires that any exceptions taken to this Investment Policy Statement be submitted in writing pending approval by the board. The board must explicitly authorize each exception in writing. Failure to notify the board and obtain written authorization will result in the investment manager being liable for any corresponding loss to the Trust's investment funds.

Pooled/Mutual Fund Exceptions

In the case of a commingled account or mutual fund, the Fund waives strict adherence to the previous investment guidelines. Notwithstanding these policies, a pooled/mutual fund's investment objectives, policies and restrictions, as set forth in its current prospectus and statement of additional information (as amended from time to time), shall govern the investment of the Fund's assets.

Section 21.
Cash Contributions and Redemptions

Cash-In-Flows

Monthly Royalties: Oil and gas royalties are received monthly and deposited into the Alabama Trust Fund. These monies are distributed, pro-rata as determined by the Board, to the investment managers. Royalties are normally received no later than the 15th of each month and transferred to the investment manager within two (2) to three (3) working days.

No royalties are distributed to the investments in August and September. These monies are withheld to fund the annual distribution on October 1 to The Alabama Capital Improvement Trust Fund and The County and Municipal Governmental Capital Improvement Trust Fund (Amendment 666). The Amendment provides that 35% of royalties received will be distributed to the two trust funds.

Income Earned: Income earned (net income collected) from the investments is distributed to the State General Fund each month and is not available for reinvestments by the managers. On or about the 5th business day of each month, the custodian transfers income from the manager's account to the Alabama Trust Fund.

Asset Re-Allocation: Changes in asset allocation and/or manager fund occurs from time to time. Managers will be notified by the custodian with as much advance notice as possible.

Cash-Out-Flows

Annual Royalties Distribution: Amendment 666 requires 35% of oil and gas royalties to be redistributed each year from The Alabama Trust Fund to The County and Municipal Government Trust Fund and The Alabama Capital Improvement Trust Fund. This distribution is made annually on October 1, and is funded by August and September royalties with the balance taken on a pro rata basis from manager accounts. Managers will be notified in mid-September of their share of this funding requirement.

Unrealized/Realized Capital Gains: Amendment 666 allows for the transfer of up to 75% of the realized and unrealized capital gains on equity sales of investments. The Board will determine the amount of this transfer annually in October. The custodian will provide notification to the investment managers at least five (5) business days prior to withdrawal by the Alabama Trust Fund custodian.

CERTIFICATE OF SECRETARY

The undersigned hereby certifies that the foregoing Alabama Trust Fund Investment Policy Statement was adopted by the Board of Directors of the Alabama Trust Fund on May 27, 2010, in a meeting duly noticed and convened.

____

Kay Ivey, Secretary